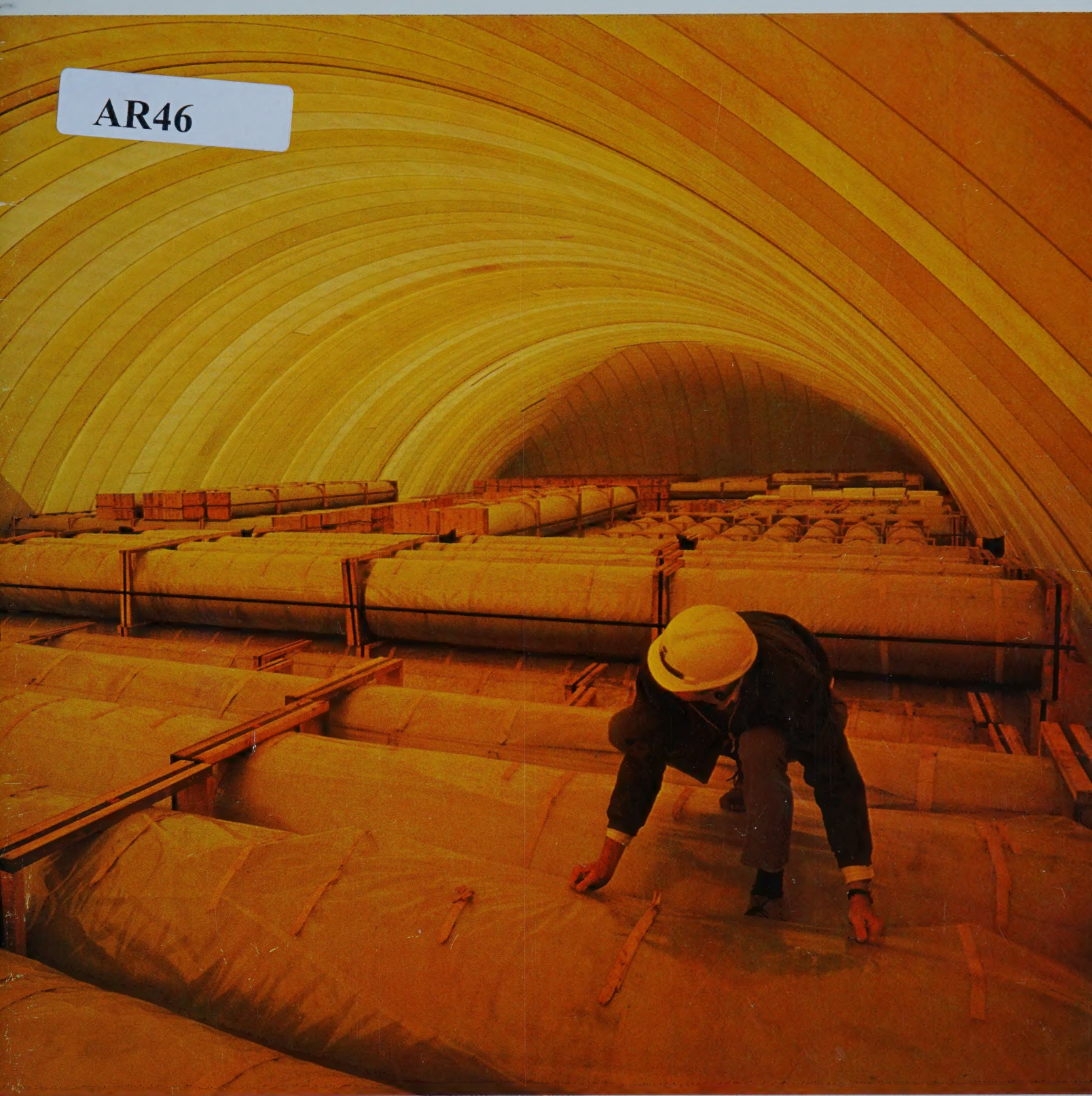


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Colt Industries Annual Report 1975

Financial Highlights

Colt Industries Inc and Subsidiaries

Year ended December 31

(In thousands of dollars,
except per share data)

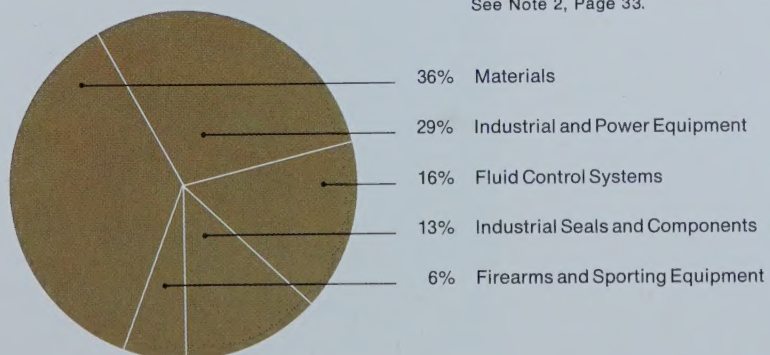
	1975	1974
Sales	\$1,022,759	\$1,143,508
Net earnings	52,127	77,303
Earnings per common share including common equivalent share	7.07	10.95
Earnings per common share assuming full dilution	6.34	9.52
Working capital	309,656	325,113
Long-term debt	250,775	228,638
Shareholders' equity	375,087	339,722
Return on shareholders' equity at year-end	13.9%	22.8%
Shareholders of record:		
Preferred	11,674	11,690
Common	28,750	28,207
Number of employees	21,800	23,700

Cover: Protective wrappings are checked on Trent welded stainless steel pipe stored in an air-supported structure for use in the Columbia LNG Corporation's LNG receiving terminal under construction at Cove Point, Maryland. Pipe is fabricated of Type 304 stainless, selected for its strength at cryogenic (-260 F) temperatures. The pipe will be installed in a controlled-atmosphere, mile-long underwater tunnel to transport liquefied natural gas from ships to shore storage facilities.



Sales

To depict the company as it is in 1976, this chart includes the 1975 sales of Garlock Inc., merged into Colt Industries in January 1976. See Note 2, Page 33.



To Our Stockholders

Your company had a good year in 1975 despite the impact of the recession and the resultant lower level of orders for our Crucible specialty steels. While down from the record highs of 1974, our sales and earnings were substantially ahead of 1973.

Net earnings in 1975 were \$52,127,000, equal to \$7.07 a common share, on sales of \$1,022,759,000. This compares with net earnings in 1974 of \$77,303,000, or \$10.95 a common share, on sales of \$1,143,508,000.

The comparable figures in 1973 were: net earnings, \$26,734,000; earnings per share, \$3.41; and sales \$862,103,000. This comparison serves to point up the high level of sales and earnings at which your company performed.

A Well Balanced Company

The results achieved in the kind of economic climate that prevailed throughout 1975 also underscore the fact that ours is a well balanced company capable of drawing sales and earnings strength from a wide range of industrial markets.

The strong earnings performance of our industrial products in 1975 tended to balance out the effects of the slack experienced in our specialty steels business. At year-end, our backlogs of specialty steels orders appeared to be stabilizing, but we had not yet experienced a sustained upturn in new orders received.

In 1975, imports of specialty steels took a substantially larger share of a smaller U. S. market. Your company joined with 18 other specialty steels producers and the United Steelworkers of America to petition the International Trade Commission, under provisions of the Trade Act of 1974, for control of the imports of stainless, tool, and other specialty steels.

The Commission has recommended to the President quotas based upon recent historic product and country shares of the U.S. market. At this writing, the President is considering the Commission's findings and recommendations.

Industrial Products Strong

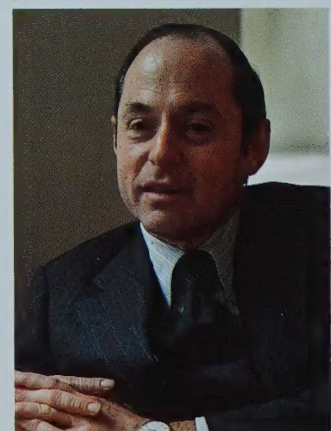
The markets for a number of our industrial products held up well during 1975.

Notable among these were Trent welded stainless steel pipe and tubing for electric power generating and liquefied natural gas transportation and storage facilities, both here and overseas; Fairbanks Morse diesel and dual-fuel engines for electric utility companies and marine propulsion; Holley carburetors for both original equipment and the automotive aftermarket; and Fairbanks Morse pumps for sewage treatment, water supply, and agricultural irrigation systems.

In keeping with our belief that capital expenditures programs should be continued during recession periods, we completed two major expansions in



George A. Strichman
Chairman
of the Board



David I. Margolis
President

1975, began a third, and plan to undertake a fourth in 1976.

The Trent Tube Division completed construction of a 126,000-square-foot plant at East Troy, Wisconsin. The new facility more than doubles the division's capacity to produce small-diameter pipe and tubing. In 1974, the division had increased the capacity of its large-diameter pipe manufacturing plant in Carrollton, Georgia.

The Fairbanks Weighing Division went into production at its new plant in Meridian, Mississippi. The plant more than doubles capacity for the production of heavy-duty truck, railroad, and livestock scales.

The Crucible Specialty Metals Division in Syracuse, New York, began construction during the year on an advanced, computer-controlled argon-oxygen decarburization (AOD) system.

The system, expected to be on stream early in 1977, will significantly increase yield and capacity and will enable the division to broaden its product lines. Coupled with the AOD, an advanced x-ray spectrograph will make possible fast, precise chemical analyses at any stage of the melting process.

Growing European Markets

In 1976, we plan construction of a major addition to our Trent pipe and tubing production plant in Helmond, The Netherlands.

The present plant, covering some 40,000 square feet, produces pipe and

tubing in the range of 1/8-inch to 3 1/2 inches in outside diameter. Through an aggressive marketing effort and the quality of its product, the Trent Tube Division has established a strong position in Europe in the manufacture and sale of welded stainless steel pipe and tubing.

The planned addition, to cover some 100,000 square feet, will not only expand capacity but will also extend production capability to welded stainless pipe up to 36 inches in outside diameter. The acceptance of welded stainless steel product in Europe has been excellent and demand is growing for use in the construction of nuclear power generation plants and liquefied natural gas transportation and storage facilities.

The Garlock Merger

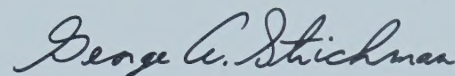
During December 1975, we purchased some 92 percent of the outstanding common shares of Garlock Inc; and on January 28 of this year, we completed the merger of Garlock into Colt Industries. Garlock is a leading producer of industrial seals and components and has grown steadily over the past decade in both sales and earnings.

In 1975, Garlock earned \$7,650,000 on sales of \$159,088,000. Garlock 1975 sales and earnings are not included with those of Colt Industries. Garlock serves 35,000 industrial customers, and its products are both consumable


and virtually indispensable wherever control of leakage is essential. This includes such basic industries as transportation, petroleum, machinery, and the whole range of process industries.

Garlock will significantly broaden our service to the industrial sector of the U.S. economy and, through its growing overseas operations, the range of our international business.

We are firm in our belief in the importance of the industrial sector to the economic health of the nation and in our own strengths as a leading industrial products company.



George A. Strichman
Chairman of the Board

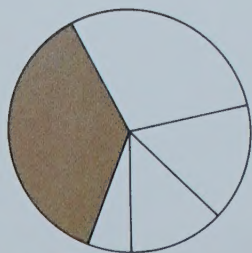


David I. Margolis
President

January 28, 1976



Materials



The impact of a sluggish economy and the resultant decrease in demand was felt throughout the year in the company's specialty steels business.

The substantial backlogs with which the Crucible specialty steels divisions began the year sustained a relatively high level of sales during the first half of the year, but the decline in new orders that began in the fourth quarter of 1974 continued through 1975.

While at year-end backlogs appeared to be stabilizing, there had been no significant, sustained upturn in new orders. Distributors and direct customers appeared to have worked down their inventories and were buying for immediate use.

The demand for Crucible steels for use in oil production, agricultural, and commercial kitchen equipment was relatively strong throughout the year. Demand was down sharply in the construction and aerospace industries, slow in the electric power generation and capital goods areas, and gaining



strength in the automobile and major appliance industries. Imports of specialty steels took an increasing share of a decreasing market during the year.

In July, the company joined with 18 other specialty steels producers and the United Steelworkers to petition the International Trade Commission, under provisions of the Trade Act of 1974, for control of imports of stainless, tool, and other specialty steels.

Forgings of Crucible alloy steel are machined into finished parts at Ellwood City (Pa.) Forge. In the foreground ready for machining are forgings for a pile driver ram point, a mill pinion, and a tie rod for a hydraulic press. In the background being machined is a crankshaft for a large diesel engine.



In mid-January 1976, the Commission ruled that the domestic industry was being injured by imports and recommended import quotas by product and country, based upon recent historic shares of the U.S. market. The Trade Act requires that the President respond within 60 days.

Two new alloys introduced early in the year were well accepted in the marketplace, and demand for them is

growing. Crucible 26-1 titanium-stabilized stainless steel is proving in use its high resistance to stress corrosion cracking in fluids with high chloride content and in electric utility recirculating water systems. Crutemp 25 is proving itself in a wide range of high temperature applications.

Late in the year, the Crucible Specialty Metals Division added to its line of Crucible Particle Metallurgy (CPM) tool steels with CPM Rex 76, a new high-speed steel with exceptionally high hot-hardness for use in cutting tool applications.

Several significant steps were taken during the year to expand and improve steelmaking capability. The Crucible Specialty Metals Division in Syracuse, New York, began construction of a computer-controlled argon-oxygen decarburization (AOD) system, expected to be in operation in early 1977. The new system will contribute to reduced raw materials costs, a broadened product line, improved yield,



and increased capacity.

At the Crucible Alloy Division and Crucible Stainless Steel Division mill in Midland, Pennsylvania, work was completed on the three-phase, three-year coke oven renovation project.

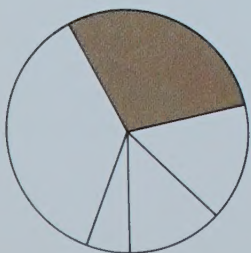
Two new heavy-duty lines were installed for improved yield and quality in the production of stainless steel coils. The new tension-levelling line produces stainless steel coils of exceptional flatness to meet the needs of steel service centers and processors who want to cut coils into stainless steel sheets of specified lengths.

Left: Two-story, 128,000-gallon fermentation and storage tanks at the new Papagne winery near Fresno, California, were fabricated by Valley Foundry of Crucible stainless steel.

Above: Nuclear quality stainless steel produced by Crucible Specialty Metals Division is used extensively in nuclear electric power generating units. Here, a reactor is readied at Carolina Power and Light Company nuclear plant at Southport, North Carolina.



Industrial and Power Equipment



Colt Industries' industrial and power equipment businesses encompass such well-known industrial products as Trent and Crucible fabricated metal products, Fairbanks Morse engines, Central Moloney transformers, Pratt & Whitney and Elox production equipment, Fairbanks scales, and Quincy compressors.

A substantial backlog of orders at the beginning of the year and a high

level of overseas shipments resulted in record sales of Trent welded stainless steel pipe and tubing in 1975.

Among the significant orders received during the year were \$4 million for steam surface condenser tubing for the Illinois Power Company, \$2.4 million for feedwater heater tubing for Public Service of Indiana, and \$5.3 million for feedwater heater tubing for four electric utility companies co-operating on standardized systems.

In 1975, the Trent Tube Division completed construction of a new plant at its East Troy, Wisconsin, headquar-



ters location for the production of small-diameter pipe and tubing. In 1976, the division plans construction of a new facility, contiguous to its present plant at Helmond, The Netherlands, with the capability to manufacture product up to 36 inches in diameter.

There is great emphasis in Europe on the construction of nuclear power plants and LNG transportation and storage facilities. Trent has established

a strong position in Europe, as it has in the U.S., in the manufacture and sale of welded stainless steel pipe and tubing. There is presently no capability in Europe to produce welded stainless pipe of nuclear quality above 22 inches in outside diameter.

New orders for Crucible magnets, highly responsive to the market for consumer durables, turned up after mid-year and trended gradually upward during the balance of the year.

Crucible spring sales were up over 1974, with approximately half the volume in large coil springs for mining,

Trent nuclear quality welded stainless steel tubing is used in such applications as sleeves for control rod drives and in steam separator units for reactor assemblies built at General Electric's Nuclear Energy Division plant in Wilmington, North Carolina.



drilling, refining, electric power, and other industries and the other half in heavy railroad springs.

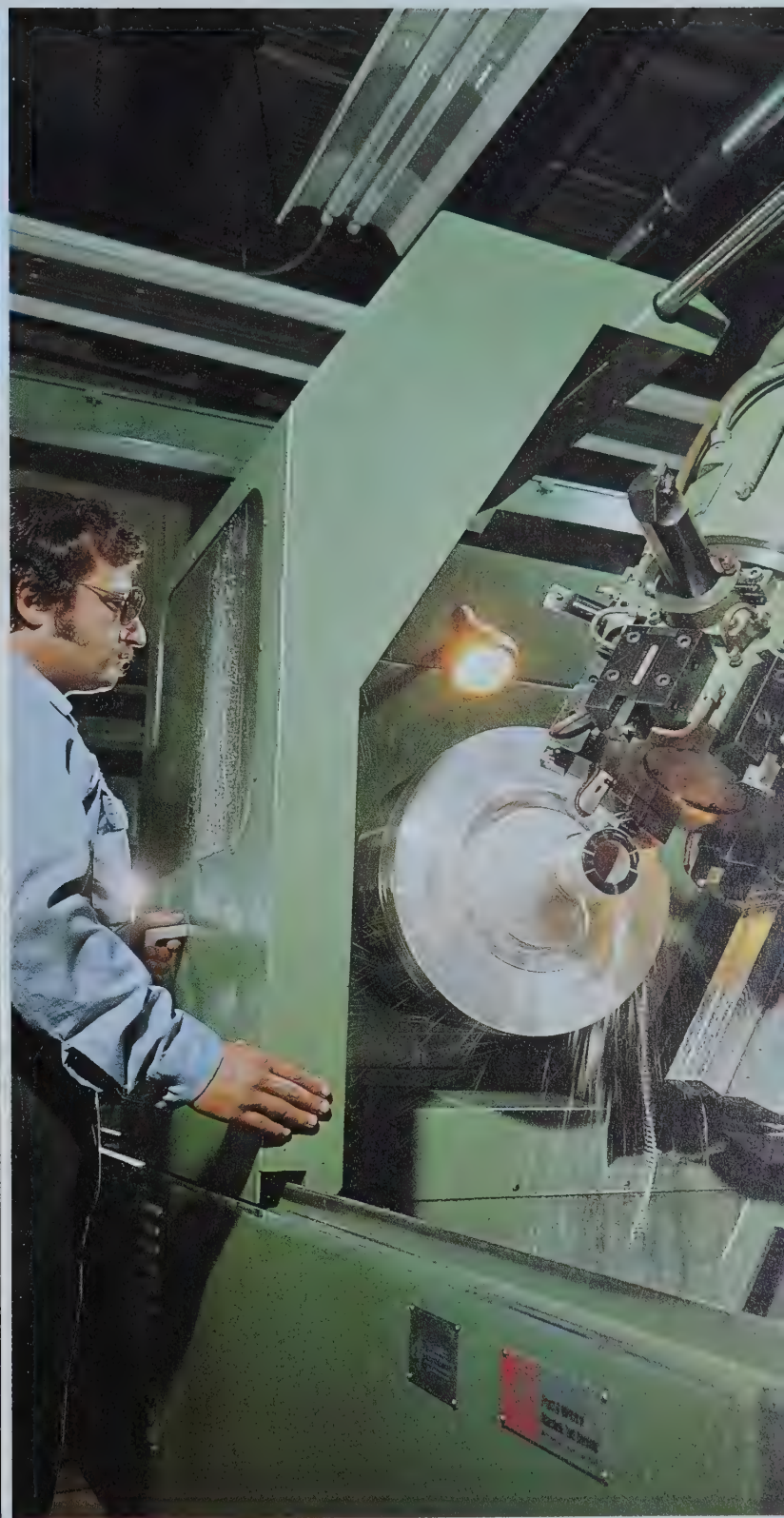
Fairbanks Morse engines had an excellent year in 1975 in terms both of shipments and new orders received. The division supplies a wide range of customers with diesel and dual-fuel engines for use in direct and standby electric power generation, marine propulsion, and offshore drilling.

In October, the division shipped what it believes to be the largest skid-mounted diesel power package ever built in the U.S. The 9,000-horsepower Colt-Pielstick diesel engine was shipped to Ketchikan, Alaska, where it backs up the city's power system.

Major orders received in 1975 included four 16-cylinder Colt-Pielstick diesel engines for nuclear standby at the Public Service Company of New Hampshire's Seabrook Station, two 12-cylinder Colt-Pielsticks for South Carolina Electric and Gas Company's nuclear station, and nine 12-cylinder

opposed piston diesels for direct power generation service in Ecuador.

Shipment was completed during the year of 10 opposed piston diesel engines to power five new river towboats being built by Hillman Barge and Construction Company for Exxon Corporation. Four other vessels in the Exxon river transportation fleet are powered by FM diesels. Substantial contracts were received for on-



board power systems for use in the U.S. Navy's Trident submarine program.

The company's Engine Accessories Operation is a leading supplier of en bloc magneto ignition systems to International Harvester, Caterpillar, Teledyne Wisconsin, and other producers of industrial engines; and of solid state ignition systems for Chrysler Corporation's line of marine outboard engines.

New and improved products designed to broaden the market highlighted for Pratt & Whitney and Elox production equipment a year other-

Left: Unique catamaran tugboat and barge, totaling 629 feet in length with capacity for 320,000 barrels of petroleum products, is powered by two Colt-Pielstick 14-cylinder turbocharged diesels built by Fairbanks Morse Engine Division.

Above: A Pratt & Whitney Star-turn lathe producing aircraft engine components at the Palmer Manufacturing Co. in Malden, Massachusetts. Highly automated, numerically controlled Pratt & Whitney machine tools contribute significantly to increased productivity throughout American industry.



wise characterized by the decline in capital spending. During the year, the Pratt & Whitney Small Tool Division was consolidated into the Pratt & Whitney Machine Tool Division.

That division introduced its new, low-cost TapeMate drilling and tapping center for small shops, schools, and other users who have not been able to afford numerically controlled equipment.

The Elox Division's new numerical control traveling wire electrical discharge machining (EDM) equipment is being well accepted by and orders are accelerating from both large tool and die shops and small shops which heretofore had not used either numerically controlled or EDM equipment.

Solid waste management, food processing control, and the growing requirements for advanced electronic read-out systems kept demand for Fairbanks weighing equipment at a high level during 1975.

The division's Levetricon electro-

mechanical truck scales are used to weigh commercial vehicles at land-fill and other waste disposal sites. Fairbanks scales with stainless steel weighing platforms are extensively used in a wide range of food processing applications where accurate weight measurements and records are an integral part of the processing system.

In March, the division began production at its new 98,000-square-foot plant



in Meridian, Mississippi. The plant substantially more than doubles the capacity for production of heavy-duty motor truck, railroad, contractor vehicle, and livestock scales.

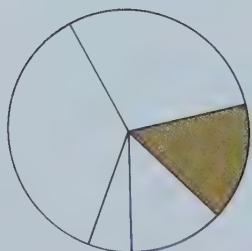
Quincy compressors were in good demand during the year for use aboard offshore oil drilling rigs, in pneumatically actuated climate control systems, and for a wide range of general plant air applications. Increased penetration was made in the markets for both portable compressors, principally in the construction industry, and for stationary helical screw compressors.

Left: Sausages are moved on racks into smoking oven at New England plant of leading specialty meats producer. Ingredients for sausage meats are weighed carefully to formula on Fairbanks Unicell scale system before blending.

Above: Quincy compressors perform varied tasks on offshore oil drilling rigs. Compressed air is used in pneumatic conveying systems to transfer dry drilling mud from supply ship to drilling platform, actuate controls on drilling floor, and power variety of equipment.



Fluid Control Systems

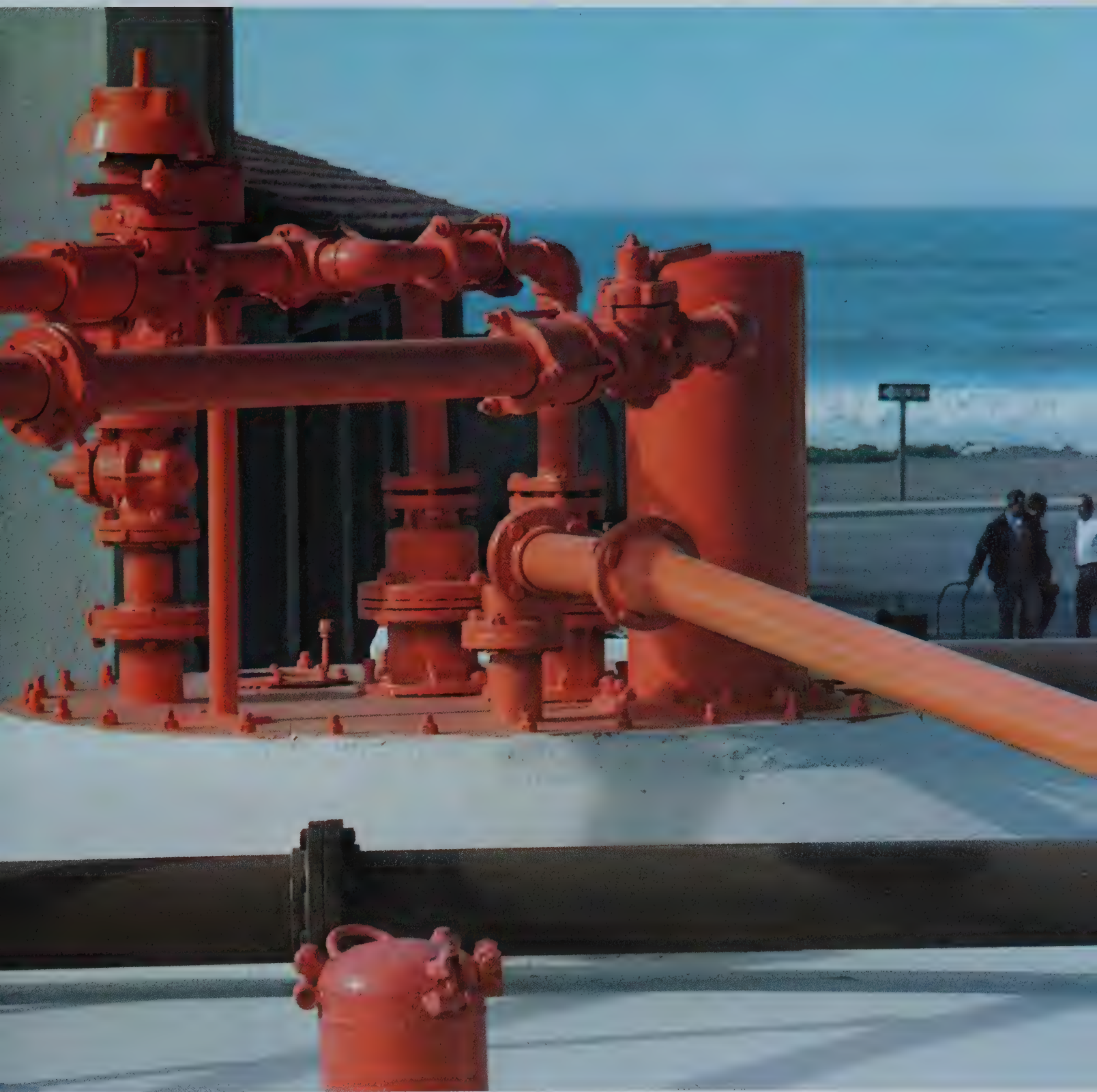


The three divisions comprising Colt Industries' fluid control systems businesses showed significant gains in 1975. They are the Holley Carburetor Division, the Fairbanks Morse Pump Division, and the Chandler Evans Control Systems Division.

The Holley Carburetor Division has placed major emphasis over the past few years on the development of fuel-efficient carburetion systems, both for

its original equipment for the major automobile manufacturers and for the automotive aftermarket. Holley carburetors are standard equipment on many of the new economy cars being produced by Chrysler, Ford, and General Motors; and the Holley staged two-barrel carburetor is on all eight of the Ford Motor Company's new MPG cars.

Late in the year, the division introduced its new Model 4360 small, four-barrel carburetor designed to meet the trend toward smaller engines and improved fuel economy. For more fuel-



efficient older vehicles, the division introduced a line of single- and two-barrel replacement carburetors covering a wide range of American Motors, Chrysler, Ford, and GM engines produced for the 1960-1974 model years.

With its introduction of a full line of intake manifolds, Holley now offers a complete induction system package including manifold, carburetor, and fuel pump. Sale of air pumps for auto-

Left: Fuel-efficient small cars, produced by Chrysler, Ford, and General Motors and equipped with Holley carburetors, are tested for gasoline economy in variety of driving conditions.

Above: Sewage treatment plant at Pacifica, California, typifies growing market for Fairbanks Morse pumps. FM centrifugal pumps are engineered to meet high-volume, solids-handling, non-clog requirements of modern sewage treatment plants.



motive emission control systems was slowed during the year by the trend toward smaller cars and postponement of the effective date for emission control standards.

Sewage handling and treatment, water supply systems, agricultural irrigation, and fire protection were the major markets for the Fairbanks Morse Pump Division in 1975. Municipal sewage treatment facilities continue to be

a strong market for high-volume pumps as the U.S. Environmental Protection Agency commits funds to pollution control projects. Typical is the New Orleans Sewerage and Water Board multi-million-dollar expansion of its East Bank sewage treatment plant. The facility is using 24 Fairbanks Morse pumps specifically engineered for high-volume sewage handling.

During the year, the division completed introduction of its Series 7000 line of highly efficient deep-well turbine pumps for agricultural irrigation systems and introduced a new line of

ejector pumps for home water systems.

Major stimuli to Chandler Evans Control Systems business in 1975 and the years ahead are the U.S. Air Force F-15 air superiority fighter and F-16 air combat fighter. The Chandler Evans MFP-330 fuel pump is a vital component in the F100 engines that power both these advanced aircraft.

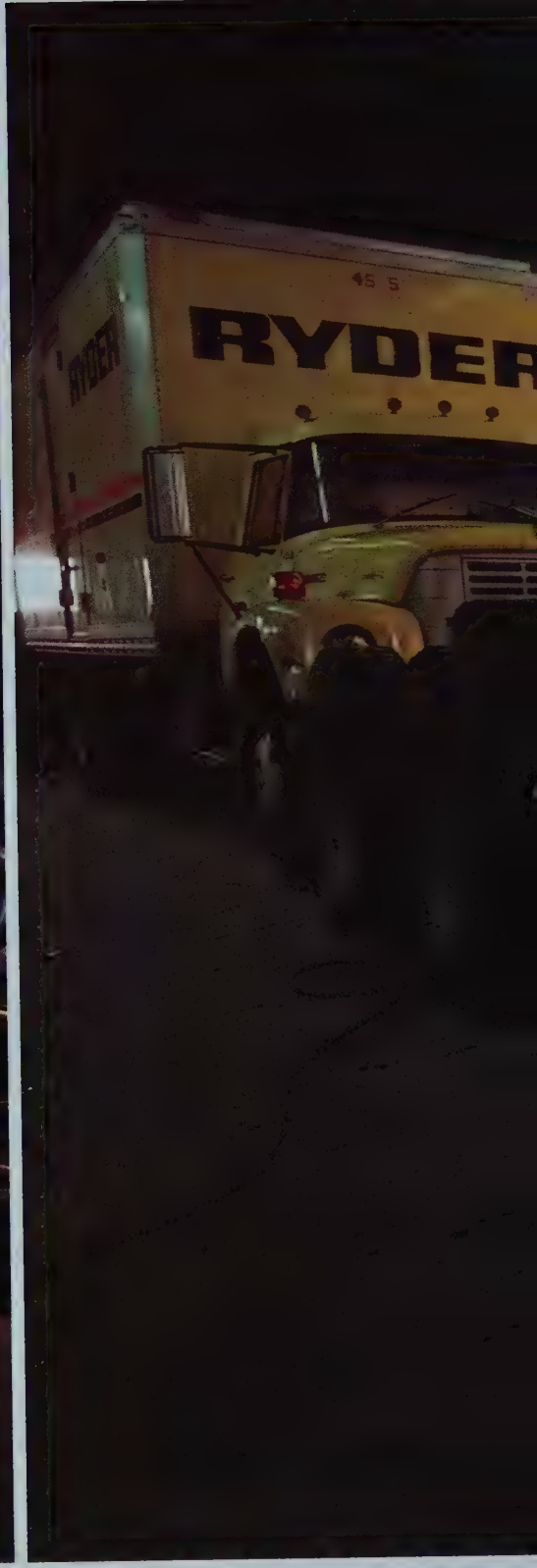
The F100 engine is built by the Pratt & Whitney Aircraft Division of United



Technologies Corporation. The F-15 is now in full production, and the F-16 is in full-scale development. The F-16 has also been selected by and will be produced for Belgium, Norway, Denmark, and The Netherlands.

The division's AFP-20 afterburner pump is an integral part of the GE 404 engine that will power the U.S. Navy's F-18 lightweight air combat fighter. Meanwhile, the division's standard line of main fuel gear pumps and fuel controls are chalking up steady sales for use aboard a wide range of both military and commercial aircraft.

U.S. Air Force's new F-16 air combat fighter, produced by General Dynamics Corporation, is prepared for flight test at Edwards Air Force Base, California. Chandler Evans fuel pump helps provide 25,000 pounds of optimum thrust from the F100 engine.



Industrial Seals and Components

During 1975, Garlock maintained the steady growth that has characterized the company for more than a decade. Since 1965, Garlock has more than tripled both sales and net income.

Garlock became a wholly owned subsidiary of Colt Industries in January 1976, and broadens significantly the company's range of products for use by industry both in this country and

overseas. Garlock is a leading producer of a wide range of gaskets, packings, and other devices to seal in air, water, gas, oil, and chemicals and to seal out dust, dirt, and other contaminants. Its products are essential to the control of leakage and the protection of moving parts in such basic industries as petroleum, chemical and food processing, machinery, and transportation.

Garlock products range in size from watchstem seals a fraction of an inch in diameter to huge flue duct joints measuring more than 50 feet in diam-





eter for use in electric power generating plants. Applications range from industrial machinery and complex chemical plants to household appliances, power mowers, outboard motors, snowmobiles, and bicycles.

Because they are critical to the performance of equipment and systems they serve, Garlock products are carefully designed, engineered, and manufactured to meet critical customer

Left: Among the more than 100,000 Garlock industrial seals and components are expansion joints for variable-temperature piping systems, butterfly valves for control of liquids, and truck wheel lubrication systems.

Above: Garlock oil seals, gaskets, bearing seals, truck wheel lubrication systems, and other products are used extensively by the transportation industries, both as original equipment and as replacements at service facilities like this Ryder Truck Rentals depot in Medford, Massachusetts.



specifications. The basic raw materials that go into Garlock products include leather, rubber, textiles, metals, asbestos, plastics, and chemicals in various combinations to meet a wide variety of leakage control requirements. Original equipment manufacturers of heavy trucks and automobiles and of household appliances and other consumer durables are important customers for Garlock custom-molded

rubber products, bearing materials, and oil seals. For many Garlock products, there is both an original equipment market and a substantial replacement aftermarket. These include such products as gaskets, truck wheel seals, and compressor components.

Sales of Garlock products to the energy and process industries, including chemical plants and petroleum refineries, were particularly strong in 1975. These products included braided packings, expansion joints, and plastic-lined butterfly valves to control the flow of corrosive fluids.

Garlock employs approximately 5,000 persons in 16 U.S. and eleven overseas plants. The company markets its products from plant locations and through a network of independent distributors and representatives in this country and abroad. Principal plants outside the United States are in Canada, England, France, Belgium, Spain, Australia, and Mexico.

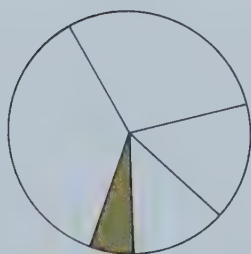


In 1975, three new production facilities were built and will be in operation this year. These are a compression packing facility at Sodus, New York; a bearing materials plant in Thorofare, New Jersey; and an asbestos processing plant in Sherbrooke, Quebec, Canada. Expansions are planned in 1976 at compressor parts plants in Bavay, France, and Newtown, Pennsylvania; and a new compression packing plant is being built in Manila, Republic of the Philippines.

In petroleum refineries and in many other process industries, such critical functions as the control of leaks, flow of fluids, and internal pressures are performed by Garlock seals, gaskets, expansion joints, compressor valves, braided packings, butterfly valves, and other products.



Firearms and Sporting Equipment



The market for sporting, commemorative, and security firearms was strong throughout 1975. During the year, a special Bicentennial Commemorative was developed for sale during 1976.

In a limited edition of 1776 copies, the three-drawer, wood cabinet commemorative contains three guns that trace the development of the revolver in the United States. They are the Third Model Dragoon percussion revolver,

the single-action U.S. Army 1873, and the Colt Python. The cabinet also contains a leather-bound Bicentennial Edition of *Armsmear*, reproduced from the original Samuel Colt biography published in 1866.

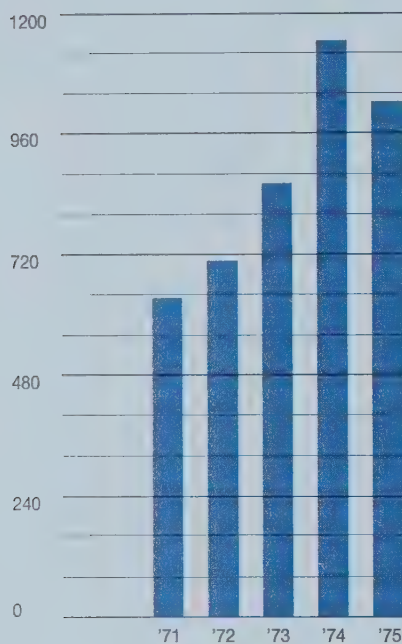
Production continued on the M16 rifle for the U.S. Army; and sales of the M16 to overseas governments, in accordance with policy of the U.S. Departments of State and Defense, increased during the year. Work continued on the contract from the Republic of the Philippines to establish an M16 production facility in that country.



Members of a shooting club in Westchester County, New York, compete in Annual Turkey Day pistol match. Competition for Thanksgiving turkeys is based on scores accumulated firing at checkerboard targets with numbered squares.

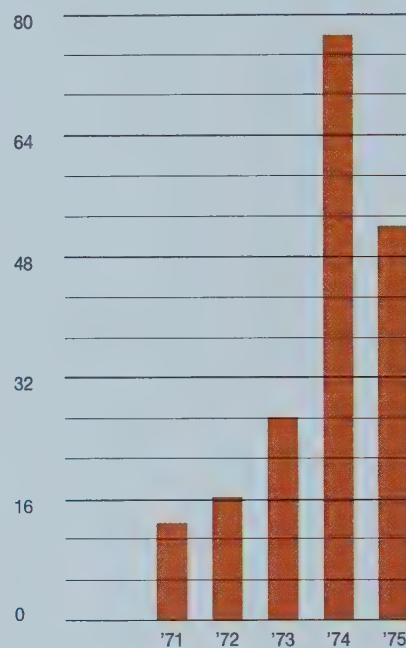
Sales

in millions of dollars



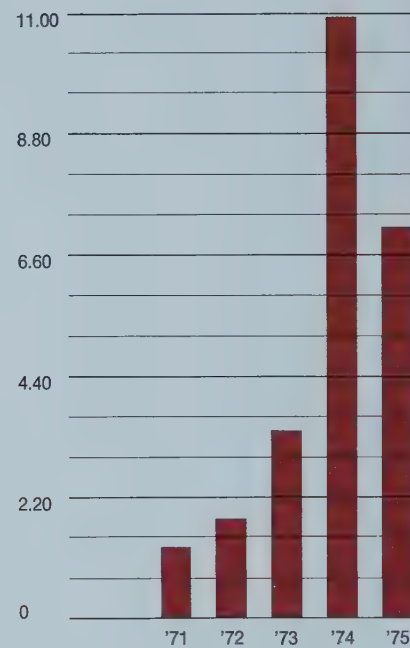
Net Earnings

in millions of dollars



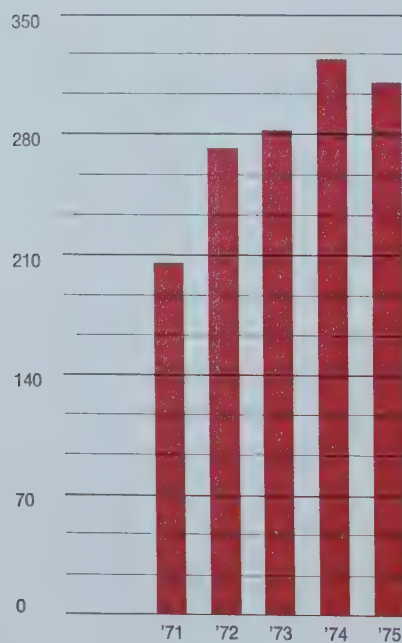
Earnings per Share

in dollars



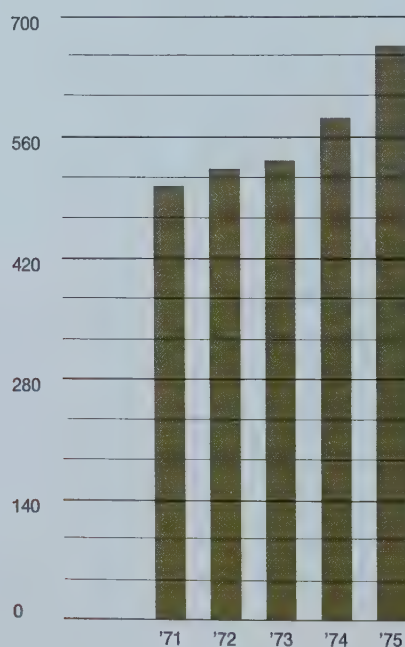
Working Capital

in millions of dollars



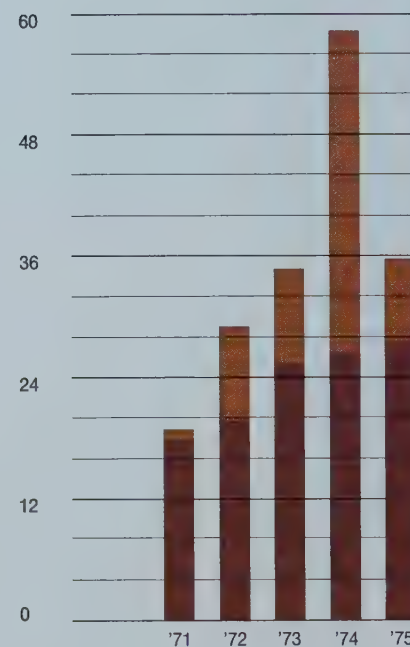
Fixed Assets (At Cost)

in millions of dollars



Capital Expenditures Depreciation and Amortization

in millions of dollars



Financial Review

The company's results of operations as set forth in the Consolidated Statement of Earnings do not reflect the 1975 sales and earnings of Garlock Inc, approximately 92 percent of the outstanding common shares of which were purchased during December, 1975. The results of operations of Garlock Inc will be incorporated in the consolidated operating results of Colt Industries Inc beginning January 1, 1976. The assets and liabilities of Garlock Inc are included in the Consolidated Balance Sheet for December 31, 1975 on page 28. On January 28, 1976, Garlock Inc was merged into its parent company, a wholly owned subsidiary of Colt Industries Inc.

Under terms of the merger, Garlock shareholders would receive cash payment of \$35 for each outstanding share of Garlock common stock held at the time of the merger. Garlock shareholders are being informed of the completion of the merger and of the procedure for surrendering their stock certificates and receiving the \$35 per share cash payment.

The record sales levels in 1974 reflected strong demand in the capital goods sector of the economy for Crucible specialty steels and our industrial products. Price increases in 1974 accounted for somewhat more than one half of the 1974 sales increases. The decline in our 1975 sales was primarily due to the downturn in the economy and slowness of its recovery, resulting in low levels of operations in our specialty steels business. The sales volume in 1975 for other segments of our business has remained fairly constant compared with 1974.

Costs and expenses for 1975 and 1974 were directly related to the volume of business and the higher costs for

purchased materials, energy, wages, fringe benefits, supplies, maintenance, and state and local taxes. The amortization of prior service cost was increased in 1974 to the maximum tax deductible amount and had the effect of increasing the pension expense by \$6,290,000. The principal increase in pension expense for 1975 resulted from improved benefits in negotiated union contracts.

The changes in interest expense and income are basically a reflection of the changes in the prime rate. The effective tax rates for the years 1975, 1974, and 1973 were 41.0 percent, 43.5 percent, and 41.5 percent, respectively. The lower rate in 1975 resulted principally from the effect of a relatively high investment tax credit and benefits attributable to DISC income, in relation to lower earnings.

Net earnings in 1975 were \$52.1 million or \$7.07 per share. This compares with net earnings in 1974 of \$77.3 million or \$10.95 per share.

The table at the bottom of this page shows Colt Industries' consolidated net sales and earnings before income taxes attributable to its four lines of business for the five years ended December 31, 1975.

Materials accounted for 34 percent of the total pre-tax earnings for a total of \$30.2 million in 1975, compared to 71 percent and \$96.7 million in 1974 and 80 percent and \$36.7 million in 1973. Pre-tax 1975 earnings reflect the sales decline resulting from the slowdown in the demand for the products of the materials business and the steel industry in general, offset in part by operating efficiencies and inventory gains. The improved performance in 1974 resulted from operating at near capacity levels,

Sales and Earnings before Income Taxes by Lines of Business (In Millions of Dollars)

	1975		1974		1973		1972		1971	
	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings	Sales	Pre-Tax Earnings
Materials	\$ 454	\$30.2	\$ 585	\$ 96.7	\$404	\$36.7	\$309	\$26.6	\$263	\$19.9
Industrial and Power Equipment	344	36.7	352	27.2	281	2.7	233	(7.6)	224	(7.2)
Fluid Control Systems	187	16.1	191	6.0	167	7.7	138	6.0	117	5.4
Firearms and Sporting Equipment	71	5.4	57	6.9	36	(1.4)	51	1.0	56	4.4
Intergroup Sales Elimination	(33)	—	(41)	—	(26)	—	(24)	—	(23)	—
	\$1,023	\$88.4	\$1,144	\$136.8	\$862	\$45.7	\$707	\$26.0	\$637	\$22.5

favorable pricing action, and selective selling in a demand market.

Pre-tax earnings of the industrial and power equipment business in 1975 were \$36.7 million, compared to \$27.2 million for 1974. Industrial and power equipment business accounted for 42 percent and 20 percent of the total pre-tax earnings for 1975 and 1974, respectively. Although there was an overall sales decline, there was an increase in profits. This principally reflects the results of increased sales volume for the products of the Trent Tube, Fairbanks Morse Engine, and Latin American divisions as well as generally improved operating efficiencies and inventory gains. The 1974 profit increase was attributed to the strong demand for stainless steel tubing products, the return to profitability of the Fairbanks Morse Engine Division, and the improvement in our machine tool business.

Pre-tax 1975 earnings of our fluid control systems business were \$16.1 million, compared to \$6.0 million in 1974. The increase in profits reflects the improved performance of all divisions within this line of business. The increase in 1975 profits was due to effective cost controls, favorable pricing action, and improved product mix. The decrease in pre-tax earnings in 1974 reflected the inflationary costs not recovered in prices that resulted from the severe slackening in demand in the automobile industry and the start-up costs associated with the initial production of air injection pumps for use in automotive emission control systems.

Profits of the firearms and sporting equipment business declined from the 1974 level due to increased costs not recovered in price increases. The 1974 improvement resulted from a strong demand after a poor performance in 1973, resulting principally from a 19-week strike and a cutback in M16 military rifle shipments.

Sales by Class of Products

The following table sets forth information with respect to each class of similar products which accounted for at least 10 percent of the company's sales:

	Percentage of Sales By Class of Products				
	1975	1974	1973	1972	1971
Stainless Steel	18.3	24.3	20.4	18.5	17.0
Specialty Carbon and Low Alloy Steels	20.1	19.1	18.8	18.0	18.0
Carburetors and Components	10.7	11.6	12.9	12.3	9.4
Fabricated Metal Products	13.0	11.4	10.1	9.6	9.6

Financial Position

Working capital at December 31, 1975 remained strong at \$309.7 million. The decrease of only \$15.5 million from the end of 1974 reflected the cash tender offer during December, 1975 for the stock of Garlock Inc. Cash and marketable securities were \$34.5 million at December 31, 1975, a decrease of \$29.8 million from the prior year. The company's liquidity continues healthy and its financial position at December 31, 1975 was strong.

Capital Expenditures

Expenditures of \$36 million for new plants and equipment were made during 1975. Major items included a new 126,000-square-foot Trent pipe plant at East Troy, Wisconsin, designed for the production of welded stainless steel pipe in diameters up to six inches; and a coil level and slit line at our Crucible Stainless steel facility to provide a more complete product range. Improvements to the coke ovens were substantially completed at the Crucible Alloy steel plant. A new scale facility in Meridian, Mississippi, was completed in 1975 for the production of heavy-duty truck, railroad, and livestock scales. Construction has started in the Pittsburgh area on an integrated operation which includes a large atomizer facility and hot isostatic pressing unit used for making high-speed tool steel, super alloy parts, and titanium shapes using the Crucible particle metallurgy process. The company began construction during the year on an advanced, computer-controlled argon-oxygen decarburization (AOD) system at its Specialty Metals plant in Syracuse, New York.

The company is committed to a program of cost reductions, modernization, and pollution control and expects to incur expenditures in 1976 in excess of its depreciation provisions.

Dividends

Quarterly dividends on the company's preferred stocks were paid during 1975 and 1974 at the respective annual amount stated in the titles of such preferred stocks.

Quarterly cash dividends on the common stock were paid at the rate of 25¢ per share during the first three quarters and 50¢ per share in the last quarter of 1974. In 1975, quarterly cash dividends were paid at the rate of 50¢ per share during each quarter.

Market Price of Colt Industries Stock

The company's common stock; the \$1.60 cumulative preferred stock, Series A; and the \$4.25 cumulative preferred stock, Series D, are listed on the New York,

Midwest, and Pacific Stock Exchanges. In addition, the common stock is also listed on the London Stock Exchange. The following table sets forth the reported high and low sales prices of the above-mentioned stock on the New York Stock Exchange for each quarter during 1975 and 1974:

Common Stock	1975		1974	
	High	Low	High	Low
First Quarter	30¾	23¼	21¾	15⅞
Second Quarter	35⅞	27⅞	25½	18¾
Third Quarter	33½	27½	29¼	20⅝
Fourth Quarter	29½	24¾	28¼	20½

\$1.60 Cumulative Preferred Stock, Convertible Series A

First Quarter	20½	16¼	20	18⅝
Second Quarter	21	19¼	19¾	17⅞
Third Quarter	20⅜	18⅞	20	16
Fourth Quarter	18⅞	17½	19½	16½

\$4.25 Cumulative Preferred Stock, Convertible Series D

First Quarter	50	41½	50¼	45½
Second Quarter	54⅞	48	50½	45
Third Quarter	51	46	50	42
Fourth Quarter	48	45¼	49¾	40

To the best of the company's knowledge, there is no established trading market for the \$4.50 cumulative preferred stock, convertible Series B; the \$4.25 cumulative preferred stock, convertible Series C; and the \$2.75 cumulative preferred stock, Series E.

Quarterly Sales and Earnings

The following table presents sales, net earnings, and earnings per share by quarter for the two years ended December 31, 1975.

Quarter	Sales (in thousands)		Net Earnings (in thousands)		Earnings Per Common Share*	
	1975	1974	1975	1974	1975	1974
1st	\$290,619	\$255,271	\$16,515	\$11,236	\$2.29	\$1.54
2nd	267,133	299,856	14,605	23,287	2.00	3.34
3rd	225,290	288,409	8,684	20,998	1.12	2.97
4th	239,717	299,972	12,323	21,782	1.66	3.09

*Including common equivalent share

Shareholder Information

At the end of 1975, there were 28,750 holders of the company's common stock and 11,674 holders of the five classes of preferred stock. At the end of 1974, there were 28,207 holders of common and 11,690 holders of preferred.

Including 116,350 shares held in treasury during both years, there were 6,693,763 shares of common stock outstanding on December 31, 1975, compared with 6,638,285 at year-end 1974. Stock options exercised and conversion of preferred stock accounted for the 55,478 increase.

Annual Report to the Securities and Exchange Commission on Form 10-K

The annual report on Form 10-K, without exhibits, will be made available free of charge to interested stockholders upon written request to the Corporate Secretary, Colt Industries Inc, 430 Park Avenue, New York, New York 10022.

Consolidated Balance Sheet

December 31

		(In thousands)	
Assets		1975	1974
Current Assets			
	Cash, including certificates of deposit of \$13,498 and \$22,710	\$ 21,566	\$ 23,266
	Marketable securities, at cost (approximates market)	12,914	40,968
	Accounts and notes receivable—		
	Trade	148,250	146,172
	Other	4,680	6,111
		152,930	152,283
	Less allowance for doubtful accounts	3,896	3,290
		149,034	148,993
	Inventories (Note 1)—		
	Finished goods	69,401	47,477
	Work in process and finished parts	141,180	144,381
	Raw materials and supplies	99,962	92,772
		310,543	284,630
	Less allowance for obsolete or slow moving items	18,884	16,662
		291,659	267,968
	Deferred income taxes (Note 3)	10,283	9,650
	Other current assets	11,565	6,252
	Total current assets	497,021	497,097
Property, Plant, and Equipment, at Cost			
(Notes 1 and 4)			
	Land and improvements	22,123	14,887
	Buildings and equipment	113,525	94,076
	Machinery and equipment	508,575	440,767
	Leasehold improvements	4,851	4,666
	Construction in progress	12,477	18,171
		661,551	572,567
	Less accumulated depreciation and amortization	346,619	330,310
		314,932	242,257
	Funds held by custodian for pollution equipment	7,779	9,129
		322,711	251,386
Other Assets		46,542	29,152
(Note 1)			
		\$866,274	\$777,635

Liabilities and Shareholders' Equity		(In thousands of dollars, except par values)	
		1975	1974
Current Liabilities	Notes payable to banks (Note 4)	\$ 8,167	\$ 2,282
	Current portion of long-term debt (Note 4)	10,519	8,794
	Accounts payable	74,673	79,376
	Accrued expenses—		
	Salaries, wages, and employee benefits	42,722	34,982
	Taxes	27,636	29,678
	Interest	2,660	1,839
	Other	20,988	15,033
		94,006	81,532
	Total current liabilities	187,365	171,984
Noncurrent Liabilities	Long-term debt (Note 4)	250,775	228,638
	Reserves—		
	Losses on long-term leases	4,553	5,472
	Employee benefits	9,940	8,242
	Plant consolidation, etc.	2,270	2,595
		16,763	16,309
	Deferred income taxes (Note 3)	33,328	20,956
Shareholders' Equity (Notes 4, 5, and 7)	Minority interest in subsidiaries	2,956	26
	Commitments and contingencies (Note 10)		
	Preferred stock—		
	\$1 par value, 2,941,962 and 2,942,741 shares authorized, 1,286,467 and 1,287,246 shares outstanding (involuntary liquidation value at December 31, 1975—\$103,627)	1,286	1,287
	Common stock—		
	\$1 par value, 15,000,000 shares authorized, 6,693,763 and 6,638,285 shares issued	6,694	6,638
	Capital in excess of par value	147,331	146,627
	Retained earnings	226,320	191,714
		381,631	346,266
	Less cost of 116,350 shares of common stock in treasury	6,544	6,544
		375,087	339,722
		\$866,274	\$777,635

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Statement of Earnings

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1975

		(In thousands, except per share data)				
		1975	1974	1973	1972	1971
Revenue	Net sales	\$1,022,759	\$1,143,508	\$862,103	\$707,299	\$636,741
Costs and Expenses	Manufacturing and operating	842,510	911,027	733,739	602,086	539,171
	Selling and administrative	83,206	86,771	71,179	68,855	65,668
	Interest expense	17,458	19,425	16,842	12,835	11,173
	Interest income	(8,772)	(10,534)	(5,356)	(2,495)	(1,755)
	Total costs and expenses	934,402	1,006,689	816,404	681,281	614,257
Earnings	Earnings before income taxes	88,357	136,819	45,699	26,018	22,484
	Provision for income taxes (Note 3)	36,230	59,516	18,965	9,750	9,780
	Net earnings	52,127	77,303	26,734	16,268	12,704
	Dividends on preferred stock	4,400	4,403	4,406	4,430	4,444
	Net earnings applicable to common stock	\$ 47,727	\$ 72,900	\$ 22,328	\$ 11,838	\$ 8,260
Earnings Per Share Data	Earnings per common share including common equivalent share (Note 1)	\$7.07	\$10.95	\$ 3.41	\$1.81	\$1.27
	Earnings per common share assuming full dilution (Note 1)	\$6.34	\$ 9.52	\$ 3.32	\$1.80	\$1.26
	Average number of shares (Note 1)—					
	Common and common equivalent basis	6,751	6,657	6,541	6,535	6,511
	Fully diluted basis	8,191	8,101	7,991	6,643	6,709
	Cash dividends per common share	\$2.00	\$ 1.25	\$.77½	\$.60	\$.80

The accompanying notes to financial statements are an integral part of this statement.

Consolidated Statement of Retained Earnings

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1975

		(In thousands)				
		1975	1974	1973	1972	1971
Retained Earnings	Balance, beginning of period	\$191,714	\$126,958	\$109,669	\$101,709	\$ 98,575
	Net earnings for the period	52,127	77,303	26,734	16,268	12,704
	Dividends—					
	Preferred stock	(4,400)	(4,403)	(4,406)	(4,430)	(4,444)
	Common stock	(13,121)	(8,144)	(5,039)	(3,878)	(5,126)
	Balance, end of period	\$226,320	\$191,714	\$126,958	\$109,669	\$101,709

Consolidated Statement of Capital in Excess of Par Value

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1975

		(In thousands)				
		1975	1974	1973	1972	1971
Capital in Excess of Par Value	Balance, beginning of period	\$146,627	\$146,480	\$146,329	\$146,235	\$147,585
	Add (deduct)—					
	Excess of cost over fair market value of treasury stock issued in exchange for net assets of acquired company	—	—	—	—	(1,362)
	Conversion and retirements of preferred stock and exercise of options	704	147	151	94	12
	Balance, end of period	\$147,331	\$146,627	\$146,480	\$146,329	\$146,235

The accompanying notes to financial statements are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

Colt Industries Inc and Subsidiaries

For the five years ended December 31, 1975

		(In thousands)				
		1975	1974	1973	1972	1971
Source of Funds	Net earnings	\$ 52,127	\$ 77,303	\$ 26,734	\$ 16,268	\$ 12,704
	Items not requiring use of working capital—					
	Depreciation and amortization	27,678	26,501	25,545	19,695	18,017
	Deferred income taxes	2,400	(1,000)	2,000	7,000	4,400
	Working capital provided from operations	82,205	102,804	54,279	42,963	35,121
	Long-term debt	2,208	19,198	11,148	122,306	10,111
	Treasury stock	—	—	—	—	1,664
		84,413	122,002	65,427	165,269	46,896
Application of Funds	Acquisition of Garlock Inc (excluding working capital of \$48,656):					
	Property, plant, and equipment	65,842	—	—	—	—
	Long-term debt	(30,552)	—	—	—	—
	Other net assets	3,454	—	—	—	—
	Increase in net long-term assets	38,744	—	—	—	—
	Additions to properties	35,748	58,292	34,763	29,249	18,908
	Decrease in long-term debt	10,623	10,707	8,497	56,508	18,584
	Dividends paid	17,521	12,547	9,445	8,308	9,570
	Other—net	(2,766)	(2,069)	3,579	2,357	3,041
		99,870	79,477	56,284	96,422	50,103
Working Capital	Increase (decrease) in working capital	(15,457)	42,525	9,143	68,847	(3,207)
	At beginning of year	325,113	282,588	273,445	204,598	207,805
	At end of year	\$309,656	\$325,113	\$282,588	\$273,445	\$204,598
		Increase (decrease) in working capital				
		1975	1974	1973	1972	1971
Changes in Components of Working Capital	Cash, including certificates of deposit	\$ (1,700)	\$ (1,141)	\$ (22,647)	\$ 29,278	\$ 3,059
	Marketable securities	(28,054)	(6,402)	32,407	(2,476)	6,900
	Accounts and notes receivable	41	27,563	12,236	18,953	(5,165)
	Inventories	23,691	50,760	20,535	22,292	(18,975)
	Deferred income taxes	633	3,650	—	6,000	—
	Other current assets	5,313	1,076	468	(428)	(1,008)
	Notes payable to banks	(5,885)	(455)	(626)	2,471	(356)
	Current portion of long-term debt	(1,725)	(1,152)	(3,424)	11,135	(1,550)
	Accounts payable	4,703	(21,005)	(5,368)	(15,561)	6,043
	Accrued expenses	(12,474)	(10,369)	(24,438)	(2,817)	7,845
		\$ (15,457)	\$ 42,525	\$ 9,143	\$ 68,847	\$ (3,207)

The accompanying notes to financial statements are an integral part of this statement.

1. Summary of Accounting Policies

Principles of Consolidation—Investments in which the company's ownership of common voting stock is over 50 percent are consolidated in the financial statements. Corporations in which the company has stock ownership of at least 20 percent but not over 50 percent are accounted for on the equity basis. Intercompany transactions are eliminated.

Foreign Currency Translation—The accounts of foreign subsidiaries are translated into U.S. dollars at the current rates of exchange, except that noncurrent assets and depreciation are translated at approximate rates of exchange at the dates of acquisition of the related assets. Resulting unrealized gains and losses, not significant in amount, are reflected in net earnings.

Inventories—Inventories are priced at the lower of cost or market, less allowance required to reduce slow moving or obsolete items to realizable values. Cost elements included in inventory are material, labor, and factory overhead. Cost on approximately 49 percent of the domestic inventory is determined on the last-in, first-out basis and on the remainder of the inventory is generally determined on the first-in, first-out basis. The excess of current cost over last-in, first-out cost at December 31, 1975 and 1974 was approximately \$57,000,000 and \$27,000,000, respectively.

Beginning and ending inventories used in the determination of cost of goods sold were as follows:

December 31, 1975	\$291,659,000
December 31, 1974	267,968,000
December 31, 1973	217,208,000
December 31, 1972	196,673,000
December 31, 1971	174,381,000
December 31, 1970	193,356,000

Property and Depreciation—Depreciation and amortization of plant and equipment are provided for by the company and its subsidiaries, generally using the straight-line method, based on estimated useful lives of the assets. For federal income tax purposes, certain assets are depreciated using allowable accelerated methods.

Ranges of annual depreciation rates used by the company and its subsidiaries were as follows:

Land improvements	2-10%
Buildings and equipment	2-10%
Machinery and equipment	4-33 1/3 %
Leasehold improvements	Generally life of lease

Repair and maintenance costs are charged against earnings, while renewals and betterments are capitalized by additions to the related asset accounts. The company and its subsidiaries generally record retirements by removing the cost and accumulated depreciation from the asset and reserve accounts, reflecting any resulting gain or loss in earnings.

Research and Development Costs—Research and development costs for new products or improvements of existing products are charged against earnings in the year incurred.

Start-up Costs—Start-up costs related to new operations and major facilities are expensed as incurred.

Revenue Recognition—Revenue on the majority of the company's products and services is recorded at the time deliveries or acceptances are made and the company has the contractual right to bill.

Intangibles—Excess costs arising from acquisitions prior to October 31, 1970 are not amortized or written off unless there is a diminution in value of the acquired company. Excess costs arising from acquisitions after such date are amortized on the straight-line method over a 40-year period.

Earnings Per Share—Earnings per common share, including common equivalent share, are computed by dividing net earnings less dividends on preferred stock by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents are shares issuable on the exercise of stock options when dilutive, net of shares assumed to have been purchased with the proceeds.

Earnings per share, assuming full dilution, are computed as above with additional assumptions that all of the dilutive convertible securities were converted and related dividends were eliminated.

2. Acquisition of Garlock Inc

During December, 1975, 92 percent of the voting common stock of Garlock Inc was acquired in a cash tender at \$35 per common share. The transaction has been accounted for as a purchase and accordingly the assets and liabilities of Garlock Inc as of December 31, 1975 have been included in the accompanying consolidated balance sheet. The results of operations of Garlock Inc will be incorporated in the consolidated operating results of Colt Industries Inc beginning January 1, 1976. Garlock is primarily a manufacturer of gaskets, seals, and other devices to control or prevent the leakage of fluids. The purchase price, \$87,400,000, exceeded the fair value of net assets acquired by approximately \$15,408,000. This excess is being amortized on the straight-line method over a 40-year period.

On January 28, 1976, Garlock Inc was merged into its parent company, a wholly owned subsidiary of Colt Industries Inc. Under terms of the merger, Garlock shareholders would receive cash payment of \$35 for each outstanding share of Garlock common stock held at the time of the merger. Garlock shareholders are being informed of the completion of the merger and of the procedure for surrendering their stock certificates and receiving the \$35 per share cash payment.

The consolidated results of operations on a pro forma basis as though Garlock Inc had been acquired at the beginning of fiscal 1974 are as follows:

	1975	1974
Net sales	\$1,181,847,000	\$1,294,676,000
Net earnings	57,500,000	80,200,000
Earnings per common share	7.84	11.36

3. Income Taxes

The provision for income taxes is made up of the following components:

	1975	1974	1973	1972	1971
(In thousands)					
Current	\$33,830	\$60,516	\$16,965	\$2,750	\$5,380
Deferred	2,400	(1,000)	2,000	7,000	4,400
Total	\$36,230	\$59,516	\$18,965	\$9,750	\$9,780

The current component includes foreign income taxes of \$2,918,000, \$1,957,000, \$904,000, \$320,000, and \$375,000 in 1975, 1974, 1973, 1972, and 1971, respectively. The deferred component includes foreign income taxes of \$185,000, \$207,000, and \$18,000 in 1975, 1974, and 1973, respectively.

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Significant items included in the deferred tax provision in 1975, 1974, and 1973 and the tax effect of each were as follows:

	1975	1974	1973
(In thousands)			
Excess of tax over book depreciation	\$2,539	\$ 2,346	\$2,530
Other	(139)	(3,346)	(530)
Total	\$2,400	\$(1,000)	\$2,000

The tax provisions of \$36,230,000, \$59,516,000, and \$18,965,000 for 1975, 1974, and 1973, respectively, resulted in effective tax rates of 41.0 percent for 1975, 43.5 percent for 1974, and 41.5 percent for 1973, which were determined as follows:

	1975		1974		1973
(In thousands)					
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount
Tax on income before taxes at the statutory U. S. federal income tax rate	\$42,411	48.0%	\$65,673	48.0%	\$21,936
Less reductions in taxes resulting from:					
Investment tax credit	(2,500)	(2.8)	(2,500)	(1.8)	(1,500)
Benefits attributable to DISC and capital gains income, etc.	(3,681)	(4.2)	(3,657)	(2.7)	(1,471)
	\$36,230	41.0%	\$59,516	43.5%	\$18,965

U.S. Treasury tax anticipation bills of \$38,700,000 at December 31, 1974 were offset against the related federal income tax liability.

4. Long-term Debt

	1975	1974
Colt Industries Inc (a)— 8½ % senior promissory notes due 1978-1992	\$ 50,000,000	\$ 50,000,000
Bank notes due 1979 (b)	55,000,000	55,000,000
6% notes due 1976-1980	14,000,000	17,000,000
6% pollution control revenue bond due 1978-1986	9,000,000	9,000,000
Capitalized leases 4.2%-8¾ % due 1976-1999	17,892,000	17,213,000
	145,892,000	148,213,000
Subsidiaries— First mortgage sinking fund bonds 5.3%-6¾ % due serially 1976-1992 (c)	69,185,000	72,436,000
8¾ % notes payable to insurance company in installments to 1990	26,000,000	—
Real estate mortgages, etc., 5%-12½ % due 1976-1992	9,822,000	7,486,000
6%-10¼ % notes due 1976-1988	10,395,000	9,297,000
	261,294,000	237,432,000
Less—Amounts due within one year	10,519,000	8,794,000
	\$250,775,000	\$228,638,000

a) The company's loan agreements provide that, for the company and all restricted subsidiaries, current assets shall not be less than 175 percent of current liabilities and that working capital shall not be less than 100 percent of funded debt. In addition, dividends declared subsequent to December 31, 1971 are limited to the sum of \$12,500,000, plus net earnings since December 31, 1971. At December 31, 1975, \$125,077,000 of consolidated retained earnings was available for dividends. The loan agreements also provide that the company cannot incur any additional funded debt, unless at the time such funded debt is incurred and after giving effect thereto, net tangible assets would then exceed 200 percent of funded debt and 250 percent of senior funded debt.

b) The loan agreement provides that the interest rate shall be at an incremental 1¼ percent above the existing prime rate, provided that in the event the notes are not paid before 1979 the aggregate interest will not exceed 7¾ percent per annum.

c) The mortgage bond indentures, which are secured by approximately \$183,000,000 of assets, principally property, plant, and equipment, provide for restrictions on the disposition of property and the creation of additional indebtedness.

d) Minimum payments on long-term debt due within five years from December 31, 1975 are as follows:

1976	\$10,519,000
1977	13,702,000
1978	16,818,000
1979	72,620,000
1980	16,235,000

e) Under existing loan agreements, the company is not required to maintain compensating balances. During 1975, the average short-term borrowing outstanding was \$2,297,000, with \$8,167,000 being the maximum amount outstanding at any month-end. The weighted-average in-

terest rate on short-term borrowing during the year, principally related to foreign borrowing, was 9.9 percent. This average was calculated by weighting the short-term borrowing outstanding for each month.

5. Capital Stock

Changes in capital stock are shown below for 1973, 1974, and 1975:

	Preferred Shares \$1 Par Value	Common Shares \$1 Par Value	Treasury Stock Shares	Cost
Balance at January 1, 1973	\$1,293,784	\$6,582,354	(116,350)	\$(6,544,000)
Conversion of preferred stock and exercise of options	(5,394)	38,856	—	—
Balance at December 31, 1973	1,288,390	6,621,210	(116,350)	(6,544,000)
Conversion of preferred stock and exercise of options	(1,144)	17,075	—	—
Balance at December 31, 1974	1,287,246	6,638,285	(116,350)	(6,544,000)
Conversion and retirements of preferred stock and exercise of options	(779)	55,478	—	—
Balance at December 31, 1975	\$1,286,467	\$6,693,763	(116,350)	\$(6,544,000)

The authorized preferred stock is issuable in series. Outstanding preferred stock has voting rights and is entitled to cumulative dividends. At December 31, 1975, the following series were outstanding:

	Annual Dividend Rate	Shares Outstanding	Involuntary Liquidation Value	Redemption Value Per Share
Series A	\$1.60	367,426	\$ 14,697,000	\$ 41.00
Series B	4.50	13,205	1,321,000	102.25
Series C	4.25	81,830	8,183,000	102.50
Series D	4.25	757,914	75,791,000	103.50
Series E	2.75	66,092	3,635,000	55.00
		1,286,467	\$103,627,000	

Dividends may not be paid on common stock if the shareholders' equity of the company would thereby be reduced below the aggregate involuntary liquidation preference applicable to outstanding preferred stock (\$103,627,000), plus the amount of capital attributable to common stock (\$6,577,000).

All series, except Series E, are convertible into common stock of the company: Series A, at the rate of 2.666 shares of common stock for each five shares of preferred; Series B, at the rate of 4.987 shares of common stock for each share of preferred; Series C, at the rate of 1.462 shares of common stock for each share of preferred; and Series D, at the rate of 1.390 shares of common stock for each share of preferred; subject to certain specified adjustments.

At December 31, 1975, shares of common stock were reserved for the following purposes:

Conversion of preferred stock	1,435,056
Issuance under stock options	567,565

6. Pension and Retirement Plans

The company and certain of its subsidiaries have in effect, for substantially all employees, pension and retirement plans under which funds are deposited with trustees. As of December 31, 1975, the actuarially computed vested benefits, using a 6 percent interest factor, were \$216,320,000, exceeding the market values of fund assets by \$88,668,000. It is estimated that the amount required to fund all vested benefits as of December 31, 1975, based on interest rates then in effect, would be \$178,503,000, exceeding the market value of fund assets by \$50,851,000.

Pension expense of \$28,247,000, \$22,547,000, \$15,398,000, \$12,047,000, and \$9,794,000 was charged to earnings in 1975, 1974, 1973, 1972, and 1971, respectively. The amortization of prior service cost was increased in 1974 to the maximum tax deductible amount and had the effect of increasing the pension expense by \$6,290,000.

The Pension Reform Act of 1974 requires the company to amend certain of its pension plans to conform with provisions of the Act, which became effective in 1976. The company believes that the effect on annual costs for 1976 and subsequent years resulting from these amendments will not be significant.

7. Stock Option Plans

Under the terms of the Colt Industries Stock Option Plan, as amended by the shareholders in 1968, 350,000 shares of common stock were authorized for grant to officers and key employees. This plan permitted the issuance of qualified stock options, as defined by the Internal Revenue Code, and non-qualified options. The option price was not less than 100 percent of the market price on the date of grant. Qualified options have a five-year term and non-qualified options have a ten-year term. They are exercisable in cumulative annual installments of 25 percent or 33⅓ percent one year from date of grant, depending upon the terms of the grant.

In 1974, the shareholders approved the Colt Industries 1974 Stock Option Plan, which provides for the granting of 300,000 shares of common stock to officers and key employees at prices not less than 100 percent of the market price on the date of grant. Under the terms of this plan, qualified stock options and non-qualified options may be granted until September 11, 1983. These options are exercisable in cumulative annual installments of 33⅓ percent one year from date of grant.

At December 31, 1975, options for 392,133 shares were outstanding (of which 373,557 were non-qualified, and the balance of 18,576 shares were either qualified or non-qualified options at the discretion of the optionee) at prices ranging from \$13.69 to \$33.25 per share and aggregating \$6,036,000. Shares available for grant at December 31, 1975 and 1974 were 168,154 and 168,369 (17,301 of which are shares relating to lapsed options under the plan adopted in 1968), respectively.

No charges have been made to earnings for any year with respect to stock options.

A summary of information with respect to stock options which became exercisable and which were exercised during the three years ended December 31, 1975 is presented below:

Exercisable (a)					
Number of Shares	Option Price		Market Price		
	Per Share	Total (In thousands)	Per Share	Total (In thousands)	
1973	65,088	\$13.69-\$32.00	\$1,071	\$14.25-\$21.50	\$1,025
1974	109,813	\$13.69-\$23.63	1,672	\$17.63-\$27.75	2,493
1975	80,371	\$13.69-\$26.50	1,291	\$25.25-\$33.38	2,233
	255,272		\$4,034		\$5,751

Exercised (a)					
Number of Shares	Option Price		Market Price		
	Per Share	Total (In thousands)	Per Share	Total (In thousands)	
1973	13,911	\$13.94	\$ 194	\$14.13-\$21.00	\$ 257
1974	11,387	\$13.94-\$22.06	164	\$19.38-\$29.25	281
1975	54,938	\$13.69-\$21.25	777	\$24.38-\$35.50	1,695
	80,236		\$1,135		\$2,233

a) The market price per share represents the highest sales price on various dates which options became exercisable or were exercised, as applicable.

In connection with the acquisition of Garlock Inc, the company has reserved, at December 31, 1975, 7,278 shares of its common stock for the exercise of options granted by the company in substitution for previously outstanding Garlock options at an average price of \$14.29 per common share of the company. During January, 1976, 31,934 additional common shares were reserved for the remaining Garlock options outstanding prior to the acquisition date, at an average price of \$14.63 per common share of the company. The option prices per common share were determined in accordance with the provisions of the Internal Revenue Code.

8. Incentive Plan

The Colt Industries Incentive Plan, approved by shareholders at the 1965 annual meeting, provides that if consolidated net earnings for any year, after deducting therefrom the amount of all dividends accruing during such year in respect of preferred stocks of Colt, exceeds an amount equal to 6 percent of common shareholders average equity for the year, then there shall become available for incentive awards for that year an amount equal to 6 percent of consolidated earnings before income taxes. The persons to receive awards and the amounts thereof are determined annually by a committee consisting of four directors, none of whom is eligible to receive an incentive award. The company made cash awards of \$1,505,000, \$1,719,000, \$1,125,000, \$870,000, and \$504,000 for 1975, 1974, 1973, 1972, and 1971, respectively, which have been charged to expense.

9. Supplementary Earnings Information

	(In thousands)				
	1975	1974	1973	1972	1971
Maintenance	\$49,206	\$49,252	\$39,608	\$31,923	\$25,569
Depreciation and amortization	27,678	26,501	25,545	19,695	18,017
Taxes, other than federal income taxes:					
Payroll	18,801	20,208	16,248	12,073	10,912
Property	5,147	4,723	4,913	5,024	4,713
State and local	8,550	13,411	5,336	4,144	3,920
	32,498	38,342	26,497	21,241	19,545
Rent	12,385	11,991	11,127	11,832	11,677
Research and development costs	13,319	13,668	13,389	13,380	13,666

10. Commitments and Contingencies

The company and certain of its subsidiaries had rental expense, after reduction for related rental income, in the amounts of \$8,794,000, \$8,552,000, \$7,947,000, \$8,649,000, and \$8,866,000 which were charged to earnings in 1975, 1974, 1973, 1972, and 1971, respectively. The amounts of related rental income from subleases in 1975, 1974, 1973, 1972, and 1971 were \$3,591,000, \$3,439,000, \$3,180,000, \$3,183,000, and \$2,811,000, respectively.

The company and certain of its subsidiaries have non-cancelable leases expiring on various dates after December 31, 1976. Amounts payable under such commitments are as follows (in thousands):

	Rental Commitments Under All Noncancelable Leases*			Rental From Non-cancelable Subleases	Non-capitalized Financing Leases
	Real Property	Machinery and Equipment	Total		
1976	\$ 2,300	\$1,105	\$ 3,405	\$3,774	\$1,224
1977	2,038	872	2,910	3,783	1,306
1978	1,861	482	2,343	3,500	1,222
1979	1,467	431	1,898	3,338	1,186
1980	1,327	396	1,723	3,180	1,156
1981-1985	6,968	83	7,051	7,700	3,940
1986-1990	10,389	61	10,450	683	2,247
1991-1995	8,147	14	8,161	625	297
Remainder	8,448	—	8,448	1,190	489

*Includes commitments under noncapitalized financing leases, net of rentals to be received from noncancelable subleases.

At December 31, 1975 and 1974, the present value of the minimum lease commitments for all noncapitalized financing leases was \$9,000,000 and \$8,500,000, respectively. If all noncapitalized financing leases had been capitalized, related assets amortized on a straight-line basis and interest costs accrued at applicable rates on the basis of outstanding lease liability, the impact on net earnings in 1975, 1974, and 1973 would be less than 3 percent of average net earnings for such years.

The company and certain of its subsidiaries are contingently liable as guarantors on certain leases and are defendants in various lawsuits. In the opinion of management, these contingent liabilities are not significant in relation to the financial position of the company and its subsidiaries.

Auditor's Report

To the Board of Directors and Shareholders of
Colt Industries Inc:

We have examined the consolidated balance sheet of Colt Industries Inc (a Delaware corporation) and subsidiaries as of December 31, 1975 and 1974 and the related consolidated statements of earnings, retained earnings, capital in excess of par value and changes in financial position for the five years ended December 31, 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Garlock Inc., which statements reflect total assets constituting 14% of the related consolidated totals. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiary, is based solely upon the report of the other auditors.

In our opinion, based upon our examination and the report of other auditors referred to above, the accompanying financial statements present fairly the financial position of Colt Industries Inc and subsidiaries as of December 31, 1975 and 1974, and the results of their operations and changes in their financial position for the five years ended December 31, 1975, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

New York, N.Y.,
January 28, 1976.

Directory of Operations

Materials

Crucible Alloy Division

Box 226
Midland, Pennsylvania 15059
412/643-1100

Standard and special alloy and carbon steel ingots, blooms, billets, and bars for automotive, marine, heavy construction equipment, and durable goods manufacturing/Vacuum arc remelted aerospace alloys and superalloys/Discs, colters, and other rolled agricultural shapes.

Crucible Stainless Steel Division

Box 226
Midland, Pennsylvania 15059
412/643-1100

Stainless steel sheet and strip for chemical and food processing, cargo carrying and mass transit, automotive, appliance, construction, and durable goods manufacturing/Titanium and titanium alloy billets, plate, sheet, and strip for aerospace, chemical processing, and other industries.

Crucible Specialty Metals Division

Box 977
Syracuse, New York 13201
315/487-4111

High-speed steel bars and tool bits/Plastic mold and die casting die steels/Tool steels/Stainless free-machining bars and rods/High-temperature aerospace, nuclear, and chemical processing alloys/Valve steels/Commercially pure and alloyed titanium bars, rods, and wire.

Industrial and Power Equipment

Trent Tube Division

Church Street
East Troy, Wisconsin 53120
414/642-7321

Welded stainless steel tubing to 150-foot lengths for electric utility condensers and feed-water heaters/Nuclear piping and tubing/Liquefied natural gas (LNG) piping/26-1 special alloy tubing/Mill-length stainless and high-alloy pipe and tubing for processing, aerospace, nuclear, cryogenic, and instrumentation applications.

Crucible Spring Division

1 McCandless Avenue
Pittsburgh, Pennsylvania 15201
412/782-2444

Hot-wound heavy-duty coil springs for locomotives and freight cars, farm and heavy construction equipment, gun and missile shock absorption, pipe hangers.

Crucible Magnetics Division

Box 100
Elizabethtown, Kentucky 42701
502/769-1333

Cast Alnico, Ferrimag ceramic, and Crucore rare earth-cobalt permanent magnets for electrical equipment, electro-mechanical controls and actuators, electronic devices, meters and instruments, separators, motors, magnetos, and data processing equipment.

Pratt & Whitney Machine Tool Division

Charter Oak Boulevard
West Hartford, Connecticut 06101
203/236-6221

Vertical and horizontal numerically controlled machining centers/ NC drilling and tapping machines/ Automatic turret lathes/ NC lathes and chucks/ Jig borers/ Vertical and horizontal NC and tracer-controlled milling and duplicating machines/ Numerically and tracer-controlled multiple-spindle profiling and contour milling machines. Pratt & Whitney particle metallurgy (PWM) cutting tools/ Standard high-speed steel P & W cutting tools/ Inch and metric gages/ Electronic measuring instruments/ Sterling thread-rolling dies, taps, and gages/ Haber cold-heading tools/ Fastcut end mills/ Rotary tables/ Cutter grinders.

Elox Division

Box 2227
Davidson, North Carolina 28036
704/892-8011

Electrical discharge machining (EDM) and EDM grinding equipment and power supplies/ Custom-designed and built EDM production systems/ Micro-hole EDM equipment/ Combination EDM and try-out machines for large dies and molds/ Electron drills/ NC Traveling Wire EDM.

Fairbanks Weighing Division

St. Johnsbury, Vermont 05819
802/748-2371

Bench and portable floor scales/ Warehouse scales/ Hopper and conveyor scales/ Portable and stationary truck scales/ Static and in-motion railroad scales/ Mechanical and electronic indicators/ Mechanical, fluid-logic, and electronic accessories for process applications.

Quincy Compressor Division

217 Maine Street
Quincy, Illinois 62301
217/222-7700

Reciprocating air- and water-cooled compressors for pneumatic tooling and equipment in factories, processing plants, automotive servicing, environmental control systems, and other compressed air applications/ Stationary and portable helical screw compressors for mining and construction/ Hydraulic power units, paving breakers, and tampers for construction.

Fairbanks Morse Engine Division

701 Lawton Avenue
Beloit, Wisconsin 53511
608/364-4411

Diesel engine generator systems for standby, peaking, and continuous service/ Diesel engines for industrial drives/ Marine diesel propulsion systems and generator systems/ Specialty machining for nuclear power plant components.

Central Moloney Transformer Division

2400 West Sixth Avenue
Pine Bluff, Arkansas 71601
501/534-5332

Pole, pad-mounted, underground, and station-type distribution transformers/ High-voltage circuit breakers/ Transformer components.

Fluid Control Systems

Holley Carburetor Division

11955 East Nine Mile Road
Warren, Michigan 48090
313/536-1900

Standard carburetors and ignition systems/Air injection pumps for emission control/High-performance carburetors and kits/Standard and high-performance intake manifolds/Fuel pumps, spark plugs, wiring, and ignition tune-up parts/Custom wheels, tires, valve covers.

Chandler Evans

Control Systems Division

Charter Oak Boulevard
West Hartford, Connecticut 06101
203/236-0651

Fuel pumps, fuel controls, valves, and other aircraft gas turbine engine control components/Aircraft and missile flight controls, valves, and actuators.

Fairbanks Morse

Pump Division

3601 Kansas Avenue
Kansas City, Kansas 66110
913/371-5000

Standard and custom-engineered centrifugal, turbine, and axial flow pumps for pollution control, fire protection, municipal water supply, irrigation, drainage/Domestic water systems/Sump, self-priming lawn sprinkler, and peripheral high-pressure pumps for farm, home, and commercial water systems.

Industrial Seals and Components

Garlock Inc

1250 Midtown Tower
Rochester, New York 14604
716/232-1400

Garlock packings, gaskets, oil seals, rubber expansion joints, custom rubber parts, TFE products, hydraulic cylinders, truck leaf springs, truck mufflers, bearing materials, compressor valves, and other industrial components.

Precision Seal Division

Gastonia, North Carolina

Service Spring Company

Indianapolis, Indiana

Spring Division

Bristol, Connecticut

Stemco Manufacturing

Company Inc.

Longview, Texas

Coating Division

Austin, Texas

Mechanical Rubber Division

Palmyra, New York

Mechanical Seal Division

Houston, Texas

Compressor Products Division

Newtown, Pennsylvania
Philadelphia, Pennsylvania

Garlock Bearings Inc

Thorofare, New Jersey

Plastics Division

Camden, New Jersey

Plastomer Division

Newtown, Pennsylvania

Ortman-Miller Division

Hammond, Indiana

Firearms and Sporting Equipment

Firearms Division

150 Huyshope Avenue
Hartford, Connecticut 06102
203/278-8550

Hunting rifles/Sporting, target, and commemorative arms and accessories/Police, security, and military handguns/M16 military rifles/Grenade launchers.

International Operations

Colt Industries (Canada) Ltd.

Dorval, Quebec, Canada

Crucible Steel Division

Sorel, Quebec, Canada

Crusteel Limited

Sheffield, England

Trent Tube, B.V.

Helmond, The Netherlands

Manufacturera

Fairbanks Morse, S.A.

Mexico, D. F., Mexico

Industrias Fairbanks Morse

Centro America, S.A.

Ciudad de Guatemala
Guatemala

Industrias Fairbanks Morse

de Colombia, S.A.

Bogotá, Colombia

Industrias Fairbanks Morse

Venezuela, C.A.

Caracas, Venezuela

Garlock Operations

Amiante de Sherbrooke Limité

Sherbrooke, Quebec, Canada

Garlock of Canada Ltd.

Toronto, Ontario, Canada

Compressor Products

of Garlock Ltd.

Brantford, Ontario, Canada

Fluid Power Limited

Rexdale, Ontario, Canada

Chromex, S.A.

Lardy, France

Garlock de Mexico, S.A.

Mexico, D. F., Mexico

Liard S.A.

Roux, Belgium

Liard France S.A.

Bavay, France

Mourenx, France

Victor Engineering Pty. Ltd.

Sydney, Australia

Woodville Rubber

Company Ltd.

Ross-On-Wye, England
Burton, England

Arai Seisakusho Co., Ltd.

Tokyo, Japan
Tsukuba, Japan

Garlock A.G.

Winterthur, Switzerland

Garlock Benelux B.V.

Slidrecht, The Netherlands

Garlock GmbH

Dusseldorf, West Germany

Garlock (Great Britain) Ltd.

Newbury, England

Garlock, S.A.

Panama, Republic de Panama
Zurich, Switzerland
Barcelona, Spain
Tokyo, Japan

Louis Mulas Sucs S.A.

Mexico, D. F., Mexico

Garlock Philippines Inc

Manila, Philippines

Directors and Officers

Directors

William D. Ford
Senior Vice President
Secretary and
General Counsel
Colt Industries Inc
New York, New York

George R. Harrison
Dean Emeritus
Massachusetts Institute of
Technology, School of
Science
Concord, Massachusetts

George C. Lessner
Attorney
Manchester, Connecticut

David I. Margolis
President
Colt Industries Inc
New York, New York

A. J. McMullen
Chairman of the Board
Garlock Inc
Rochester, New York

Alva W. Phelps
Chairman of the
Executive Committee
Old Orchard Bank & Trust
Company, Skokie, Illinois
Consultant to Hess Oil &
Chemical Corporation

William H. Rea
Chairman of the Board
Oliver Tyrone Corporation
(real estate development)
Pittsburgh, Pennsylvania

Matthew B. Ridgway
General, U.S. Army (Ret.)
Pittsburgh, Pennsylvania

William S. Schwab
Partner
Rosenberg & Schwab,
attorneys
Chicago, Illinois

George A. Strichman
Chairman of the Board and
Chief Executive Officer
Colt Industries Inc
New York, New York

Max E. Wildman
Partner
Wildman, Harrold, Allen &
Dixon, attorneys
Chicago, Illinois

Officers

George A. Strichman
Chairman of the Board and
Chief Executive Officer

David I. Margolis
President

William D. Ford
Senior Vice President
Secretary and
General Counsel

Andrew C. Hilton
Senior Vice President
Administration

Kenneth A. Wulff
Senior Vice President
Finance and Treasurer

Eugene A. March
Group Vice President

Guy C. Shafer
Group Vice President

Philip Wallach
Group Vice President

Phil Berkowitz
Vice President
Personnel

Blair Bolles
Vice President
Government Relations

John F. Campbell
Vice President
Public Relations

Salvatore J. Cozzolino
Vice President and
Controller

Julius Levinson
Vice President
Taxes

Transfer Agents

Manufacturers Hanover
Trust Company (New York)

The First National Bank
of Chicago

Bank of America
National Trust and Savings
Association (San Francisco)

Registrars

Mellon Bank, N.A.
(New York)

Harris Trust & Savings
Bank (Chicago)

United California Bank
(San Francisco)

Auditors

Arthur Andersen & Co.

Executive Offices

430 Park Avenue
New York, N.Y. 10022

Washington Office

1801 K Street, N.W.
Washington, D.C. 20006

Colt Industries Inc
430 Park Avenue
New York, NY 10022

Colt Industries

